

SENATE BILL REPORT

2ESSB 5575

As Passed Senate, February 12, 2016

Title: An act relating to providing sales and use tax exemptions, in the form of a remittance of tax paid, to encourage coal-fired electric generation plants or biomass energy facilities to convert to natural gas-fired plants.

Brief Description: Providing sales and use tax exemptions, in the form of a remittance of tax paid, to encourage coal-fired electric generation plants to convert to natural gas-fired plants or biomass energy facilities.

Sponsors: Senate Committee on Ways & Means (originally sponsored by Senators Braun, Honeyford and Hatfield).

Brief History:

Committee Activity: Energy, Environment & Telecommunications: 2/12/15, 2/18/15 [DP-WM, DNP, w/oRec].

Ways & Means: 3/25/15, 4/01/15 [DPS, DNP, w/oRec].

Passed Senate: 6/29/15, 43-4; 2/12/16, 42-6.

SENATE COMMITTEE ON ENERGY, ENVIRONMENT & TELECOMMUNICATIONS

Majority Report: Do pass and be referred to Committee on Ways & Means.

Signed by Senators Ericksen, Chair; Sheldon, Vice Chair; Braun, Brown and Honeyford.

Minority Report: Do not pass.

Signed by Senators McCoy, Ranking Minority Member; Cleveland and Habib.

Minority Report: That it be referred without recommendation.

Signed by Senator Ranker.

Staff: Jeff Olsen (786-7428)

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: That Substitute Senate Bill No. 5575 be substituted therefor, and the substitute bill do pass.

Signed by Senators Hill, Chair; Braun, Vice Chair; Dammeier, Vice Chair; Honeyford, Vice Chair, Capital Budget Chair; Hargrove, Ranking Member; Keiser, Assistant Ranking

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Member on the Capital Budget; Ranker, Ranking Minority Member, Operating; Bailey, Becker, Brown, Conway, Fraser, Hewitt, O'Ban, Padden, Parlette, Rolfes, Schoesler, Warnick, Hatfield and Kohl-Welles.

Minority Report: Do not pass.
Signed by Senator Hasegawa.

Minority Report: That it be referred without recommendation.
Signed by Senator Billig.

Staff: Juliana Roe (786-7438)

Background: Emission Performance Standards (EPS) were adopted for electric generation plants to meet greenhouse gas emission standards adopted in Washington in 2008. In 2009 the Governor issued an executive order directing the Department of Ecology (Ecology) to work with the existing coal-fired plant within Washington to establish an agreed order to apply the EPS to the facility by no later than December 31, 2025. The agreed order must include a schedule of major decisionmaking and resource investment milestones. In 2011 the Legislature established a schedule for applying the EPS to the Centralia coal-fired electric generation facility.

State and local sales and use taxes are levied on the sale of tangible personal property and certain services. Exemptions from sales and use taxes have been established to create jobs and encourage investments in Washington, including, for example, the exemptions for manufacturing machinery and equipment and investments in aerospace manufacturing facilities.

Summary of Second Engrossed Substitute Bill: The construction of new structures or renovation of existing structures for the purpose of converting a coal-fired electric generation facility into a natural gas-fired electric generation plant or biomass energy facility is exempt from sales and use tax. The exemption includes the labor and services to construct the facility and the machinery and equipment that is required for the conversion. The tax exemptions are in the form of a remittance and no remittance may be paid until the conversion of the facility is operationally complete, but not earlier than July 1, 2020. All of the sales and use taxes must be remitted if the number of employment positions at the plant or facility decreases by 25 percent from the previous year's employment level, beginning one year after the plant or facility is operationally complete, until January 1, 2031.

A tax preference performance statement is provided and the exemption expires July 1, 2026.

Appropriation: None.

Fiscal Note: Available.

Committee/Commission/Task Force Created: No.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Staff Summary of Public Testimony on Original Bill (Energy, Environment & Telecommunications): PRO: The legislation passed in 2011 calling for a stable transition for the coal plant in Centralia has not resulted in a small impact on the community. There has been an enormous decline in the value of the plant, which has impacted property taxes and critical local services such as fire protection. The bill encourages investments in a natural gas-fired plant to retain jobs in an area that is currently experiencing high unemployment. TransAlta has been a strong member of the community, assisting with the response to the 2007 flood, and supporting community fundraising efforts. TransAlta is assisting with the development of an industrial park and wants to continue to generate power in the area in 2025 and beyond.

Persons Testifying (Energy, Environment & Telecommunications): PRO: Senator Braun, prime sponsor; Bob Guenther, International Brotherhood of Electrical Workers; Arny Davis, Lewis County Treasurer; Debbie Campbell, United Way of Lewis County, Executive Director; Edna Fund, Lewis County Commissioner; Matt Matayoshi, Lewis County Economic Development Council, Executive Director.

Staff Summary of Public Testimony on Original Bill (Ways & Means): PRO: About five years ago the Legislature struck a deal with Transalta which is located in the Centralia area. This is a big deal for that community. It not only puts them on a path of losing hundreds of jobs but it also has the consequence of taking away about two-thirds of the asset value in the community. What that means is that the fire authority has to lay off about half of its employees and it results in a rationing in school and library districts and the county commission. This has resulted in an enormous impact on local government services. This bill incents the power company to make a large, one-time investment in a new, gas-powered generation facility that will replace some of the jobs that were lost and, more importantly, most of the asset value that has been lost over the last five years.

For the last 44 years, that plant has supplied over \$200 million to the local economy. The footprint for the industry is planted in the Hanford Valley. The development of the park at Transalta will create jobs for the next 50 years within a 50 mile radius. Power from the new gas plant will be needed. This bill will give us the opportunity to supply power for those companies that come into this region. We are trying to supply jobs and this is a shot in the arm for Transalta.

Persons Testifying (Ways & Means): PRO: Senator Braun, prime sponsor; Bob Guenther, Thurston Lewis Mason CLC.

Persons Signed in to Testify But Not Testifying: No one.